

## THE GROWING ECONOMIC TIES BETWEEN PAKISTAN AND CHINA AND ITS IMPACT ON THE ECONOMY OF PAKISTAN

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### ABSTRACT

This paper examines the current scenario of growing economic relations between Pakistan & China. It explains how strong economic ties are important to boost up the economic growth in both countries. In past the economic relations between the two countries were not remained appreciating and Pakistan faced a severe trade deficit. In the beginning of 21st century Pakistan and China realized the importance of strong economic ties, yet both countries revised the trade policy and Pakistan was given much favor to export several types of goods into Chinese market. In current scenario the strategic importance is based on how much the countries are engaged in Trade. It brings not only economic prosperity but also brings peace and stability in the region. China will benefit by using Gawader seaport in Pakistan, which will be the shortest transit for Chinese goods to enter into Gulf states, Europe and Africa as well, on the other hand huge foreign investment by Chinese firms in Pakistan will also push the overall economic condition.

**KEYWORDS:** FTA (Free Trade Agreement), KKH (Karakoram High Way), PSA (Port of Singapore Authority)

### INTRODUCTION

Strong economic relations have an equal importance as diplomatic relations between the countries. In current scenario economic ties play a significant role in determining the diplomatic relations and foreign policies. The multi-dimensional friendship between Pakistan and China is considered as an ideal friendship between the two states. Pakistan and China are all weather friends, any environmental plus geopolitical change in the region has never been influenced over the friendly ties between them. Both countries hold identical views and support each other on different forums related to regional and international issues. The economic, geographic and domestic compulsions plus its regional and international factors impelled Pakistan to extend economic relations with China. Moreover Pakistan was as developing country as China, initially both nations faced the same development problems in the field of agriculture and industrialization. China adopted strategic policies and had successfully overcome but Pakistan is still fighting with the development issues and challenges.

Pakistan is a developing country with a semi-industrialized economy. Pakistan was the first Islamic country which officially accepted the People's Republic of China on January 04, 1950. In the last six decades Pakistan and China have developed exemplary diplomatic relations. Strengthened bilateral economic and commercial cooperation was need of the time for both countries. Economic relations of Pakistan with China have been given particular importance over its economic ties with the rest of the world.

## HISTORY OF PAK-CHINA ECONOMIC RELATIONS

The diplomatic relations between both nations were established in 1950, while military and economic cooperation properly began in 1966 and 1979 respectively. Trade and Economic relations between Pakistan and China are based on mutual interest and growing at a constant level. Chinese government is encouraging its public and private investors to investment in Pakistan regardless of its law and order situation. Bilateral Trade is contributing positively towards the economic growth of Pakistan. Pakistan provides the shortest route for China (Western region of China), through Karakorum Highway to Gwader Port, which will bring huge economic development in the region. Many Chinese companies are already engaged in different sectors in Pakistan, these include mining, infrastructure, automobiles, engineering, oil and gas, power generation and telecom sector.

In past trade relations between the two countries were not remained appreciating and Pakistan had faced persistent trade deficit because China is almost competing Pakistan's potential export sectors. The other reason behind trade deficit was Pakistani business community was connected more in European market than China. Further Pakistani business men were reluctant to accept Chinese less expensive products with quality issues and almost no guarantee given by any company. Instead they preferred European quality products which were too costly. Insufficient means of communication between the two countries were also a reason for Pakistan's trade deficit. Furthermore, unfortunately KKH (Karakorum High Way, connecting Pakistan and China) could not be used to increase the trade volume in the past.

Pak-China first trade agreement was signed in January 1963. However the border region trade between the two countries formally started via Karakoram Highway (KKH), which was constructed in 1959-1979 and officially opened in 1978 for border trade between the two nations. KKH connects Xinjiang (Autonomous Region of China) with GilgitBaltistan of Pakistan through Khunjerab Pass. KKH serves as a popular tourism attraction, also known as the Pak-China Friendship Highway. The construction of this highway considered as a great mean of trade and communication between both nations. The two countries signed an agreement about nuclear cooperation in 1986 and 300-megawatt nuclear power plant was built in Punjab Province in Pakistan under this agreement, which was completed in 1999.

In the beginning of 21st century both nations realized the lack of economic dimensions. Therefore both nations acknowledged the fact that for the sustainability of diplomatic and strategic coordination strong economic cooperation is indispensable. Economic cooperation will not only solidify bilateral relations but it will also be helpful in maintaining peace and stability in the region. Meanwhile the economic and commercial cooperation between Pakistan and China were on turning point which resulted on high economic points.

After reviewing past trade performance between the two countries, the government of former president of Pakistan, Pervez Musharraf gave special importance and attention to the economic ties between Pakistan and China. Economic relations between the two countries improved and became a major factor to strengthen further relations after the visit of President Pervez Musharraf to China in January 2000, and President Zhu Rongji's visit to Pakistan in May 2001, both nations celebrated Pak-China all-weather friendship during these visits. During Chinese President's visit to Pakistan, Pakistan and China signed six agreements, included Economic and Technical Cooperation, Tourism Cooperation, Lease Agreement on Saindak Copper-Gold Project, Supply of Locomotives to Pakistan Railways, Supply of Passenger Coaches to Pakistan Railways, White Oil Pipeline (SaminaSabir 2007). The government of China agreed to provide a financial assistance of 50 million RMB to Pakistan through Economic and Technical Cooperation. Frequent exchange visits of high

officials between the two countries have been carried out over the years for bilateral trade agreements and investment commitments. Phase I of Gwader port was successfully completed in 2005 with the help of Chinese investment for the construction of port. Free Trade Agreement between the two countries was signed in November 2006 and became operational in January 2007.

Pakistan is the 44th largest economy on the basis of nominal GDP. Economic relations between Pakistan and China are tremendously boosting Pakistan's economy, and has a significant positive impact on the country's GDP growth. China is Pakistan's second largest market for imports and fourth largest market for exports. Pakistan's exports grew rapidly during last decade as a result of FTA in 2006. The average annual exports have been increased by 19% between 2003 and 2006 and 26% increased from 2007 and 2010. Pakistan's exports doubled in just three years.

## CURRENT TRENDS IN PAK-CHINA ECONOMIC RELATIONS

Gwader (deep sea port), situated in Balochistan Province of Pakistan has potential to become most important port in Asia through expanded Karakoram Highway. This sea Port is a commercial project which is a part of bilateral relations between China and Pakistan. Moreover this port will connect China to Oil-rich Arab countries. It has the potential to generate revenues of billions of US dollar and create at least two million jobs. This port will be a source to enhance trade and commerce between Pakistan and China which will have a positive impact on economy of Pakistan. Pakistan decided to construct Gwader port in 2001. Its construction falls in two phases; the first phase was completed in 2005 with the financial support of China, while second phase is under construction. The government of Pakistan officially signed a contract and handed over the operations of Gwader port to China in February 2013. Earlier, the contract was given to the PSA (Port of Singapore Authority).

According to the contract the port will be run by a Chinese firm COPHC (China Overseas Port Holding Company) but will remain the property of Pakistan. Pakistan and China signed eight agreements in July 2013, to enhance the economic and diplomatic relations. Among which the most important agreement is construction of 1,800-Km Pak-China railway track from Kashgar in Xinjiang to Gwader Port in Pakistan. This Pak-China Economic Corridor will cost \$18 billion. This corridor will ultimately help to sustain the economic ties between two countries. China will find easy access to the Middle East, Iran and further to Africa and Europe, as it is paramount region of the world due to oil reserves and large markets. China is already dependent on the oil from these areas. Furthermore this corridor will also open routes for Pakistani businessmen into world's second largest economy.

Pakistan has signed a currency swap and free trade agreement with China in current year, which makes Pakistan the first South Asian country to signed such type of agreements with China. China is the second largest trade partner of Pakistan and biggest investor in telecommunications, ports, infrastructure and energy sectors. Moreover, in the recent Chinese government and other private companies from China have promised to invest \$20 billion in the energy sector and a huge amount of over \$30 billion in other sectors as a foreign direct investment in Pakistan, which will be helpful for promoting mutual trade between the two countries. Currently more than 120 companies are working in mining, building infrastructure, transportation and in hydro power sector. The recent development in Pak-China Corridor makes Pakistan the first transit hub for the world's second largest economy among the South Asian countries. Under this recent development two strategically important projects related to transportation and communication have been approved. Among which the most important project is acquisition of land for Gwader Port (Free trade Zone). This project will cost 6.3 billion dollars.

The study of Pak-China railway track has already been started. “Presently the volume of two way trade is about \$12 billion and the two countries are trying to increase it to \$15 billion in coming years” (IsmatSabir, “Pak-China Economic Coactions”)

## CONCLUSIONS

Economic and trade relations between Pakistan and China are boosting and growing at a constant level. Bilateral trade between both countries is contributing positively towards economic development of Pakistan. The future endeavor, a railway track from Western China to Gwadar Port in Pakistan will be a shortest possible track, which will bring huge economic development in upcoming years. Although the cost of construction of this economic corridor is expected to be high and project is hard to proceed due to geo-strategic implications of the project, as it will pass through the hard Pamir Plateau and Karakoram Mountains. But once completed it would be considered one of the most strategically beneficial transportation infrastructures on the Pak-China economic corridor.

The two countries are working hard to strengthen strategic coordination, consultations over regional and international issues and focusing on bilateral strategic cooperative relations. The main focus of the two countries in order to make Pak-China relations more strong are cooperative projects. Moreover China is providing Pakistan both economic and social development aid for a long time.

The economic policies should be further reviewed to reduce existing trade imbalances between the two countries as China is the largest trade partner of Pakistan while Pakistan is the second largest trade partner of China in the South Asian region. Pak-China economic ties are mostly on government level, it should be moved to private sector or non-government level. Moreover the law and order situation in Pakistan is big issue, during last one decade it has badly affected trade and commerce industry in Pakistan. As a result some Chinese investors are reluctant to invest in private sector such as in energy and telecom sector. The monster of law and order should need to be resolved within no time, which will bring prosperity and betterment in Business sector as well as in the life of common man in Pakistan.

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